



**Directorate of
Intelligence**

Secret

25X1

World Grain Trade: Implications of a Changing Market

25X1

An Intelligence Assessment

Secret

*GI 85-10169
June 1985*

Copy **394**

Page Denied



**Directorate of
Intelligence**



25X1

World Grain Trade: Implications of a Changing Market



25X1

An Intelligence Assessment

This paper was prepared by [redacted] the
Office of Global Issues. Comments and queries are
welcome and may be directed to the Chief,
Economics Division, OGI, [redacted]



25X1

25X1

25X1

Secret
GI 85-10169
June 1985

Secret

25X1

World Grain Trade: Implications of a Changing Market

25X1

Key Judgments

*Information available
as of 17 June 1985
was used in this report.*

Export drives by major competitors in the world grain market will produce problems for US interests on two fronts over the rest of the decade. First, although the competitive advantage the United States holds in the production and export of coarse grains such as corn is likely to continue, US farmers will face stiffer competition in the world grain markets for the remainder of the decade. In fact, we see a prospect of no US grain export growth through 1990 unless competitor marketing strategies are offset. Our analysis indicates that the US share of the world wheat market could plummet from its high of 48 percent just four years ago to 30 percent in marketing year 1986 and as low as 25 percent by 1990.

25X1

Concurrently, Soviet dependence on US grain is likely to continue to diminish. With competitor export policies directed toward expansion and the window of opportunity provided by the US partial embargo of 1980, the United States, during 1980-85, has provided Moscow with an average of only a third of its grain imports; this contrasts with the last half of the 1970s when the United States supplied Moscow with an average of two-thirds of its grain imports. Major US competitors can now supply Moscow with 25 million tons of grain annually and will be capable of supplying more by the late 1980s. Indeed, Moscow—the major buyer in a depressed grain market—will gain as all suppliers are forced to compete for Soviet grain business.

25X1

Foreign governments' policies to increase their share of the grain export market have been a key factor in shifts in world grain market trade. This element is more important, in our view, than the rapid appreciation of the dollar. Each major competitor has export expansion programs under way, relying heavily on price cutting, credit subsidies, artificially low transportation rates and hidden bonuses. By 1990,

25X1

- Canada plans to increase grain exports by 25 percent.
- Australia plans to boost grain exports by one-third.
- Argentina plans to nearly double grain exports.

The European Community is continuing its aggressive policy to market its rising exportable surpluses and will reportedly no longer adhere to its self-imposed limit of 14 percent of the global grain market.

25X1

Barring major crop disasters, other factors at play also assure a buyer's market and heightened competition through the rest of the 1980s. Developed-country grain markets are saturated; import demand has not increased since the mid-1970s. Meanwhile, policy reforms and sustained

Secret

25X1

technological improvements are reducing grain import demand in China, India, and the European Community. The LDCs are the only major group of countries likely to increase their demand for grain in the near term. With the debt problems faced by many of these countries, however, concessionary terms will be a determining factor in closing a deal.

25X1

We believe that any existing strains between the United States and its allies could be stressed further as a result of slow growth in world grain markets and aggressive export actions by US allies. Relations with Canada and Australia may be tested by US export programs, and, although the EC reportedly wants to avoid a trade war, it is unlikely to back away from its aggressive tactics in traditional US markets. With a record stock buildup this year, the EC may even attempt to match some US grain export initiatives.

25X1

Secret

Secret

25X1

Contents

	<i>Page</i>
Key Judgments	iii
Setting the Stage: Surging, Then Flat Demand for Imported Grain	1
Increased Foreign Competition: Role of Government Policies	2
Outlook and Implications	10

25X6

25X1

25X6

Secret

Secret

25X1

World Grain Trade: Implications of a Changing Market

25X1

Setting the Stage: Surging, Then Flat Demand for Imported Grain

During the 1970s, global grain trade increased by 100 million metric tons, doubling in volume. The major importers became increasingly dependent on the world grain market, according to US Department of Agriculture (USDA) statistics. In Japan, for example, imports rose by two-thirds during the 1970s. The USSR shifted from a net exporter to the world's largest importer. China's yearly grain imports during the 1970s more than tripled to 11 million tons. Eastern Europe's imports more than doubled, and, among developing world countries, OPEC and middle-income LDCs more than tripled their grain purchases while low-income LDCs increased their total imports by more than 50 percent.

Several factors accounted for this surge, including:

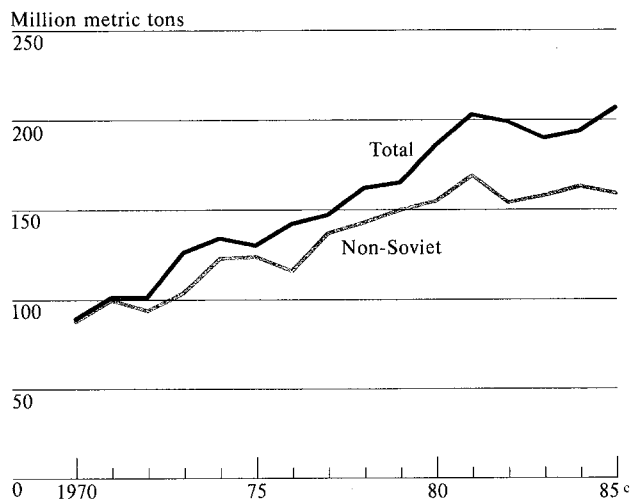
- The decision of LDCs, especially in Africa, to emphasize the production of cash crops rather than food grains.
- Rising incomes, especially in developed countries like Japan, which dramatically increased the demand for livestock products and the consequent need for animal feed.
- Periodic crop shortfalls in centrally planned economies, such as the USSR's, and in important LDCs.

This rise in world grain imports proved a boon to the US agricultural sector and international payments balance as US grain exports increased from 35 million to 109 million tons between 1970 and 1980.

In the 1980s several major economic events halted this upward sweep in global grain trade (figure 1) and caused shifts in the pattern of trade:

- The 1980 US partial grain embargo severely curtailed US grain exports to Moscow, and foreign competitors quickly stepped in to fill the gap.
- The global economic recession of 1982-83 greatly impeded many countries' ability to import grain—grain trade worldwide dropped by 10 million tons.

Figure 1
Global Grain Trade,^a 1970-85^b



^a Grain refers to wheat and coarse grains.

^b All years are marketing years (1 July-30 June). For example, 1985 refers to 1 July 1984-30 June 1985.

^c Estimated.

- The continuing debt service problems and economic austerity of many LDCs have kept their grain imports down even as global economic recovery has begun.

Two major changes in structural demand for grain also have emerged during the 1980s. First, China, previously a major grain buyer, has undergone agricultural policy reforms that have successfully raised production. China is now the number-one producer of wheat in the world. China's grain imports, which represented 8.2 percent of the world market as recently as 1983, have fallen off to 4.6 percent in 1985. This loss in sales is important to the United States since China has been a major US market (table 1). Halfway

Secret

Table 1
World Grain Imports
by Source, 1975-85^a

Million metric tons

	1975-79 Average	1980-85 ^b Average
World		
From the United States	79.8	102.4
From non-US sources	76.7	105.5
Western Europe		
From the United States	22.8	17.1
From non-US sources	23.4	22.0
USSR		
From the United States	9.5	12.8
From non-US sources	5.5	24.4
China		
From the United States	1.4	5.8
From non-US sources	4.8	6.6
LDCs		
From the United States	27.5	42.6
From non-US sources	26.0	38.0

^a All years are marketing years (1 July-30 June). For example, 1985 refers to 1 July 1984-30 June 1985.

^b 1985 data are estimated.

through 1985, China has not purchased any US grain, and grain purchases from all sources stand at about 2 million tons compared with 9.4 million tons total last year. Beijing has not renewed any of its long-term trade agreements (LTAs) in recent months.

China has already sold 2.7 million tons of corn—of which at least 1 million tons is to Moscow—and is likely to export as much as 3.5 million tons of grain this year.

A second major shift has occurred in the developed-country markets. In contrast to the rapid expansion of the 1970s, many developed-country markets are now saturated, and imports have declined in the 1980s. Factors contributing to this absolute decline include sustained production increases resulting from the successful use of capital inputs, such as high-yielding seed and fertilizer by Western Europe. Implementation of agricultural policies such as those of the European Community directed toward self-sufficiency in basic agricultural commodities has also

led to reduced grain imports in the 1980s. Indeed, the EC has increased its wheat production by 50 percent since 1980. The EC—historically a net coarse grain importer—is likely this year to become a net coarse grain exporter for the first time as total grain imports have dropped by more than 40 percent since 1980 (figure 2).

Changes in dietary consumption patterns are also impacting on developed-country markets. Consumers are shifting away from red meat toward more poultry. Because poultry are more efficient at converting grain into protein, relatively less feedgrains are being demanded.

Finally, in the 1980s, with other markets constricting, Moscow has emerged as the one big player. Indeed, Soviet grain purchases in marketing year (MY) 1985 (1 July 1984-30 June 1985) will be at record levels, and our analysis shows that, excluding the rise in Soviet imports, global grain trade has remained flat since 1980.

Increased Foreign Competition: Role of Government Policies

Competition since 1980 has intensified in part because non-US sellers have attempted to carve out increasing shares of the world grain market. Canada, Australia, and Argentina found a ready Soviet market during the US partial grain embargo in 1980 and have nearly doubled their sales to the USSR since that time. These three countries now have about 50 percent of the Soviet market, compared with just under 30 percent during 1975-79. The EC also has aggressively jumped from 2 percent to just under 10 percent of the Soviet market since the US embargo (figure 3).

Buoyed by the window of opportunity provided by the grain embargo, Canada, Australia, and Argentina have steered their agricultural policies toward increasing grain production for foreign markets. Since 1980 the average wheat area harvested by these

25X1

25X1

25X1

25X1

25X1

25X1

25X1

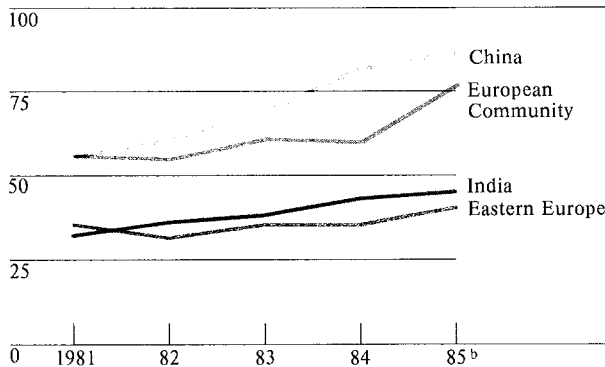
25X1

Secret

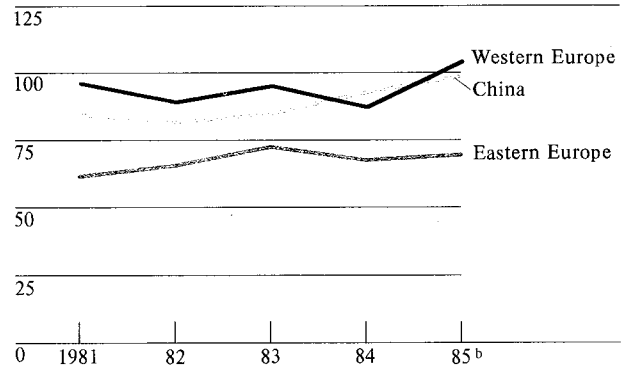
Secret

Figure 2
Grain Production and Imports for
Selected Countries and Regions, 1981-85^a

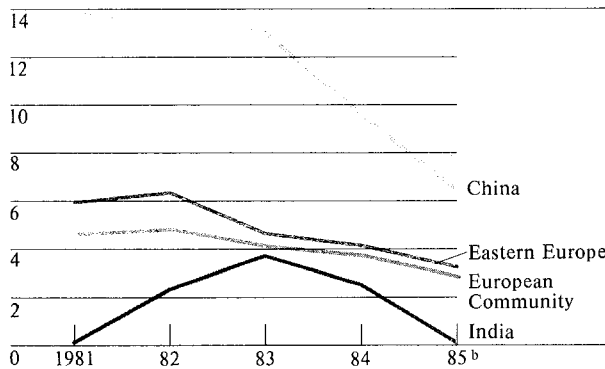
Million metric tons
Wheat Production



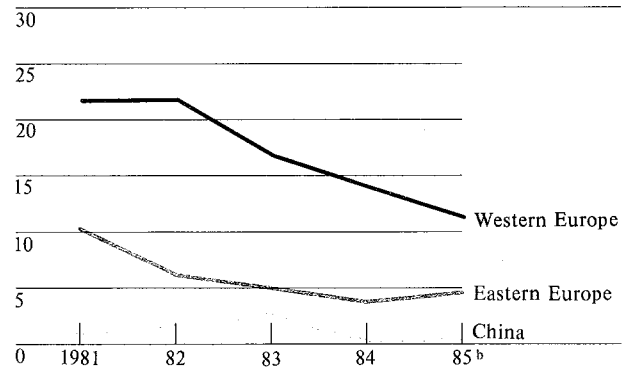
Coarse Grain Production



Wheat Imports



Coarse Grain Imports



^a All years are marketing years (1 July-30 June). For example, 1985 refers to 1 July 1984-30 June 1985.

^b Estimated.

competitors has increased 18 percent. Average coarse grain area harvested also has increased almost 25 percent (table 2). By comparison, US policies in the 1980s have been directed at taking land out of production under the payment-in-kind (PIK) program. Furthermore, while area harvested in the EC has remained constant, generous government production incentives have boosted grain output by more than 25 percent since 1980.

For the rest of the 1980s, each of the major competitors has well-defined government goals and policies to increase grain production and exports, pointing to stepped-up competition for the United States.

25X1

25X1

25X1

Marketing Year 1985 Highlights

In marketing year 1985 (1 July 1984–30 June 1985) world grain production is likely to reach a record level of about 1,310 million metric tons—up 11 percent over last year's level. The major increase in world grain production in MY 1985 has come from the United States, which raised its grain output by a hundred million tons following the heavy crop reduction from the PIK program and drought in MY 1984. The EC, with ideal weather and widespread use of high-yielding seed varieties, harvested a record wheat crop of 76 million tons—5 million more than the United States on half the land area. China, India, and Eastern Europe all experienced record crop production as well. Offsetting this, however, was the USSR with its sixth consecutive harvest falling vastly short of target. We estimate that the 1984 Soviet grain crop was about 180 million tons—down 15 million tons from 1983 and 60 million tons short of the 240-million-ton target.

For the major grain exporters, only the United States and the EC had bumper crops. In the other major competitor countries—Canada, Australia, and Argentina—weather problems reduced crops well below record levels, steering some grain trade to the United States. Wheat production by those three countries totaled 61 million tons in MY 1984 but fell to 53 million tons in MY 1985. Canada, with production down 20 percent to 21 million tons, was forced to turn down

some potential grain sales. Coarse grain production by Canada, Australia, and Argentina was not greatly affected by weather, and production this marketing year slightly exceeded MY 1984's level of 48 million tons. South Africa again is experiencing drought conditions, and it appears likely that for MY 1985 Pretoria will once again have to import grain. Despite reduced crops, US competitors will edge out the United States with a share of the grain market slightly exceeding 50 percent due to aggressive competitor export policies.

Global grain consumption will also reach an alltime high at an estimated 1,286 million tons. However, this represents only a 3-percent increase over MY 1984, and world stocks will still grow by 25 million tons or 15 percent. Global grain trade, estimated by USDA at 209 million tons, will also be a record—up 8 percent over last year and 10 percent higher than trade levels during the global recession of 1982-83.

The increase in global grain trade, however, is due primarily to increased imports by Moscow—which we estimate will be about 50 million tons in MY 1985, some 18 million tons higher than last year. Indeed, global grain trade, excluding Soviet imports, has remained relatively unchanged in the 1980s.

25X1

25X1

25X1

25X1

25X1

25X1

25X6

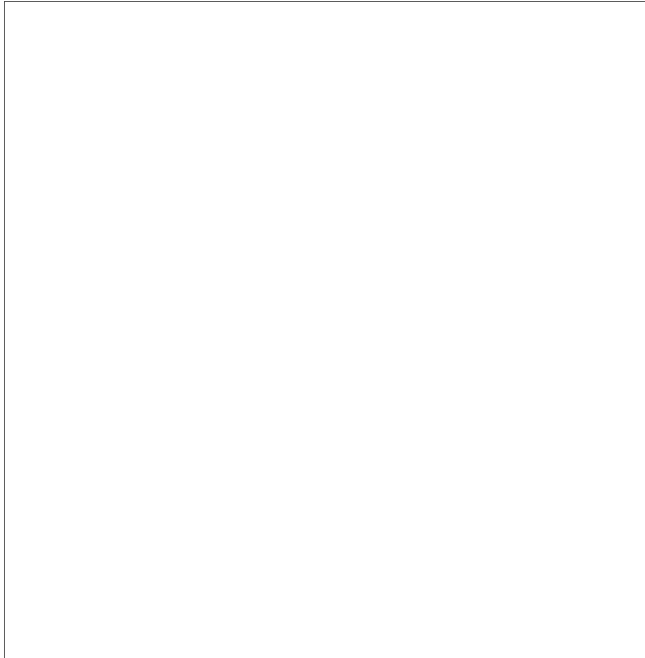
Page Denied

Next 1 Page(s) In Document Denied

~~Secret~~

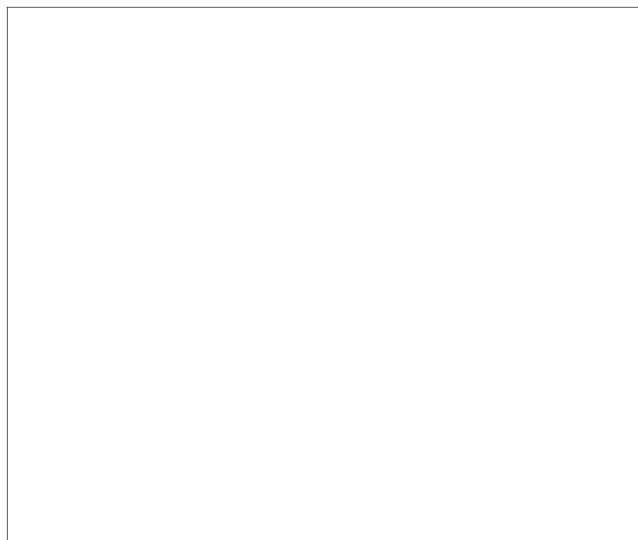
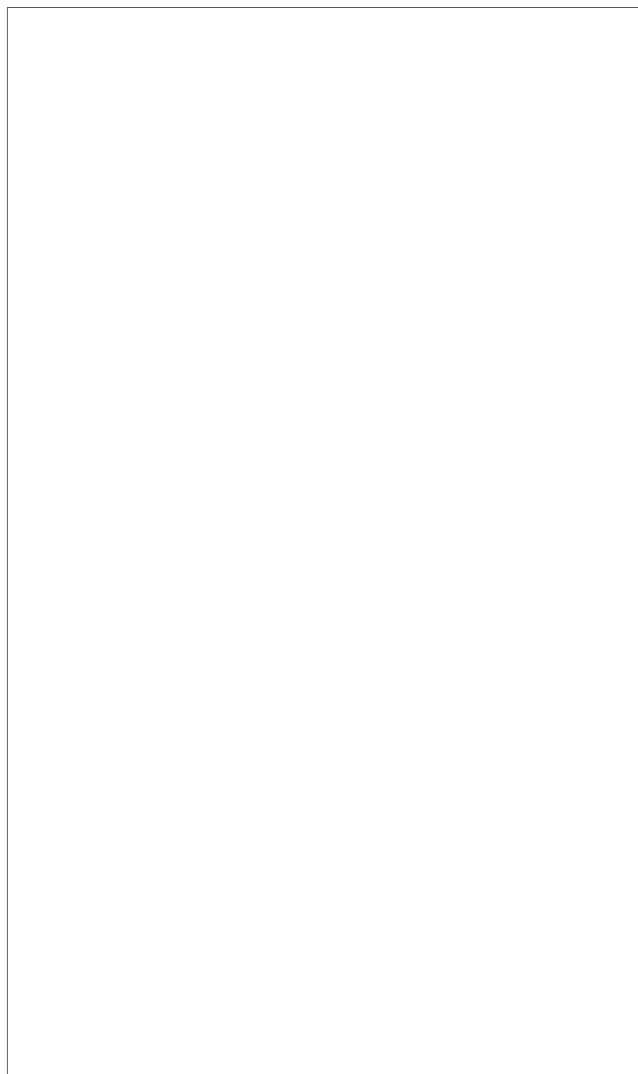
25X1

25X6



25X1

25X1



25X6

25X6

Secret

Page Denied

25X6

25X6

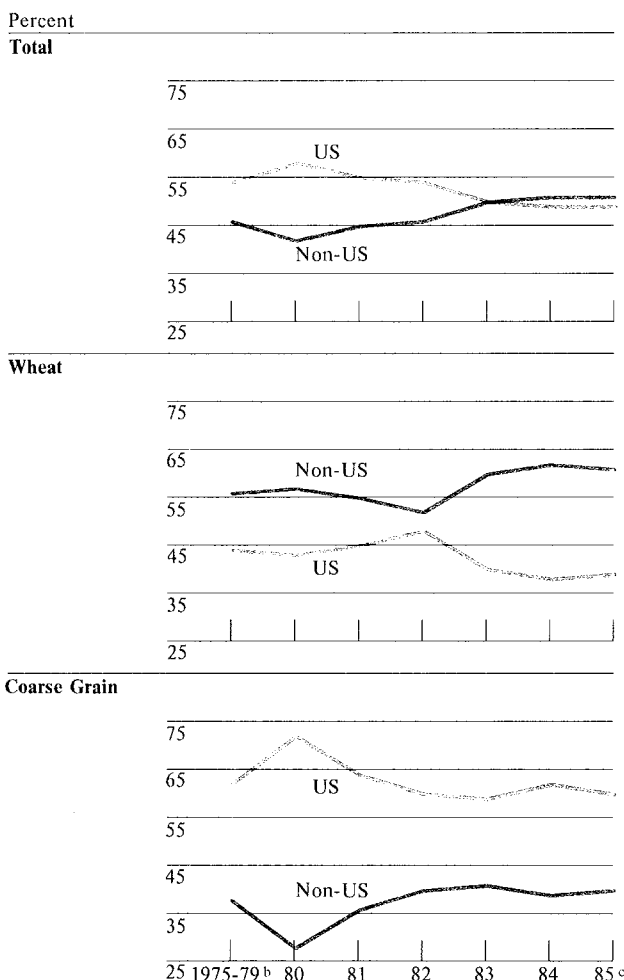
Outlook and Implications

In the aftermath of the US partial grain embargo against Moscow, grain export expansion programs and aggressive export marketing tactics of competitors have led to a sharply declining US share of global grain trade (figure 4). Although the strong dollar this past year probably worsened the situation, the declining trend began in 1980. Indeed, this downward trend is likely to continue for some time regardless of how the dollar performs on the international money markets.

25X1

Overall, our analysis of production and export plans of foreign competitors indicates that the buyer's market is likely to continue for the rest of the decade. Looking ahead to MY 1986, we believe that, barring major weather disasters, US competitors could export 69-72 million tons of wheat. With respect to demand, we examined three possible scenarios (table 3). Our analysis indicates that, while the US share of global coarse grain trade is likely to hold through 1990 at about 55 to 60 percent, the US share of the world wheat market could plummet in MY 1986 to about 30 percent—some 7-10 million tons less than the already

Figure 4
Global Grain Trade, 1975-85^a



^a All years are marketing years (1 July–30 June). For example, 1985 refers to 1 July 1984–30 June 1985.

^b Average.

^c Estimated.

low level of US exports in MY 1985.⁵ This assumes what we believe to be the most likely case—Soviet grain imports returning to MY 1983 and MY 1984 levels of just over 30 million tons and 2-percent growth in demand elsewhere. Furthermore, barring

⁵ US wheat exports are likely to be 39 million tons in MY 1985, according to USDA.

major weather disasters, foreign competitor export policies could, according to our analysis, cause US wheat exports to drop to as little as 25 percent by 1990, unless these marketing strategies are aggressively offset. If major competitors experience serious crop failures, US wheat exports could remain in the low 30-percent range. Nonetheless, American farmers could see their traditional markets erode through the remainder of the decade.

In the 1980s, only the less developed countries are likely to continue to increase their grain imports, albeit at a slower rate than in the 1970s. The LDCs are the major grain import region with demand totaling about 90 million tons or 45 percent of the world market. Indeed, we believe the LDCs will benefit from keen competition in the grain market for some years to come as long as production by the major grain producers reflects primarily political decisions to support farmers' incomes rather than policies based on effective demand. LDCs probably can be assured a bargaining advantage in negotiating grain purchases as competitors scramble for sales through the remainder of the decade. Low grain prices will be the major benefit, but the extended use of credits of two to three years' duration is likely to become more prevalent. As LDCs increasingly make use of long-term credits to purchase grain, their financial problems may be compounded in the latter part of the 1980s when rescheduled debt payments and grain credit payments begin to come due.

Table 3
Possible Scenarios: Potential US Share
of Wheat Market, Marketing Year 1986 ^a

Scenarios ^b	Global Wheat Trade (<i>million metric tons</i>)	Global Share of Wheat Market					
		United States ^c		Major Competitors ^d		Other	
		<i>Million metric tons</i>	<i>Percent</i>	<i>Million metric tons</i>	<i>Percent</i>	<i>Million metric tons</i>	<i>Percent</i>
Soviet demand returns to average levels, all other demand grows by 2 percent	102	30-33	29-32	64-67	63-66	5	5
Overall demand grows by 2 percent	108	36-39	33-36	64-67	59-62	5	5
Lower prices and/or poor weather for grain-importing countries leads to a 5-percent increase in demand	112	40-43	36-39	64-67	57-60	5	4

^a 1 July 1985–30 June 1986.

^b Demand scenarios are listed from most likely to least likely to occur.

^c In MY 1985 the United States likely will export 40 million tons of wheat, a 37-percent share of the global wheat market.

^d Canada, Australia, Argentina, and the European Community.

25X1

Finally, with competitor grain policies built around rapid expansion in production and trade, Moscow in the 1980s can count on non-US suppliers for the bulk of its grain imports. Thus, any remaining Soviet dependence on US grain is likely to diminish in the 1980s. Indeed, should Gorbachev succeed in improving Soviet agriculture and sharply cut grain imports from levels of recent years, the US situation—in terms of reduced markets—could deteriorate further.

25X1

Secret

Secret